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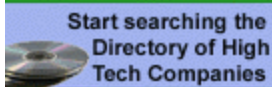
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Good credit opens real estate avenues for tech companies

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By Richard M. Bradbury

The New England region is witnessing what looks to be the beginning of a tech recovery. Job numbers for the most recent two quarters have been positive, and projections for future growth are the best they have been in recent memory.

Commercial real estate, which traditionally lags behind the overall economy's booms and busts, is right on the tail of this recovery, with recent upticks in velocity and overall space absorption. According to research, annual vacancy has decreased by nearly 5 percent in the high tech office market bastions along the Route 128 and Route 495 west corridors.

Although office vacancy in these markets remains at historical highs, the market for high-quality space at below market rates is beginning to disappear. In fact, there now appears to be significant competition for contiguous blocks of space greater than 75,000 rentable square feet, as more than 10 tenants are now scouring the market looking for space of that size or greater.

High tech companies with space requirements in this changing market must understand their options, including the landlords, concessions, competition and how the company's credit will help or hurt in the hunt for space.

As tenants begin to narrow their search to a few locations, it is important to become more knowledgeable of landlords and what their financial goals are for the building. Traditional long-term building owners will look to provide market rental rates and well-rounded incentive packages that keep cash flowing on their building, recognizing that their returns will ebb and flow over time.

"Market timer" landlords will offer ultra-low rent on short-term deals with minimum out-of-pocket cash while they wait for the market to recover.

Finally, speculative investor-owners recognize the amount of

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"cheap money" in the market because of historically low interest rates and are structuring incentive-laden packages with market or above-market rents that can be packaged for sale and capped at low rates, thereby maximizing sale price.

While companies with larger-than-average space requirements can no longer expect landlords to provide excessive concessions (such as free rent, move-in allowances, space improvements), they can still find robust incentive packages, particularly from owners seeking to fill high vacancy holdings.

However, in a competitive market, building owners will be more selective about to whom they offer these concessions. Tenants with strong credit will receive the lion's share of incentives as landlords look to ensure that the company is still going to be paying rent five or 10 years from now. Understanding the landlord's standpoint and how credit affects their decision-making may provide additional leverage to the tenant.

Of equal importance is knowing the financial credentials of other tenants competing for space and how a company's own credit compares to the competition. For public companies, corporate websites and Edgar Online are sources of SEC-required filings such as 10Ks and 10Qs. News articles, press releases or an Internet search may provide a basic understanding for private companies.

In all markets, strong credit opens up additional options to high tech companies. Credit-worthy tenants can look beyond traditional leasing to alternatives such as purchasing to own, purchasing to sell with an in-place leaseback, partnering with an entrepreneurial landlord to buy or lease a vacant building, or partnering with a developer in a build-to-suit.

The right structure can be determined by the company's financial goals. For example, is cash king to the company or is a lower annual occupancy cost on the profit-and-loss statement more attractive to shareholders? With the right credit, deals can be structured that can provide for lower than market rental rates or it can be a source of fairly inexpensive capital for companies in high-growth or acquisition mode.

A qualified real estate advisory firm will have intimate knowledge of the landlords, the competition and the various options available. Recognizing the players and the available structures in the office market will assist tenants in their ability to leverage their good credit when negotiating the transaction.

Even economic recoveries are not without their challenges. As the economy and corporate fundamentals improve, companies will grow, and as they grow the competition for prime real estate returns.

Recognizing the materiality of real estate costs on their financials, an informed management team will prepare for their next foray into the real estate market by knowing its creditworthiness,

selecting a qualified adviser, understanding the players and the various space acquisition structures, and using all of this knowledge to package itself into the perfect tenant prepared for the perfect solution.

Richard M. Bradbury is vice president of financial services for Richards Barry Joyce & Partners, a commercial real estate firm based in Boston.

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